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Dept. Of Commerce & Insurance
Company Examinations

REPORT ON EXAMINATION

OF

UNITED STATES LETTER CARRIERS MUTUAL BENEFIT ASSOCIATION

Washington, D.C.

as of

December 31, 2004

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

Nashville, Tennessee

EXHIBIT

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Nashville, Tennessee
July 28, 2005

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Commissioners:

Pursuant to your instructions and in accordance with Tennessee Insurance Laws and Regulations, and Resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review was made of the condition and affairs of:

UNITED STATES LETTER CARRIERS MUTUTAL BENEFIT ASSOCIATION

(hereinafter referred to as MBA) at its Administrative Office located at 100 Indiana Avenue, N.W., Washington, DC 20001, and the following Report on Examination is respectfully submitted.

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee and commenced on January 24, 2005. The examination was conducted under the association plan of the NAIC by examiners of the Tennessee Department of Commerce and Insurance representing the Southeastern Zone of the NAIC.

SCOPE OF EXAMINATION

The period covered hereunder is from January 1, 2000 to December 31, 2004, including any material transactions and/or events noted occurring subsequent to December 31, 2004., to the close of business on December 31, 2004, the date of this examination.

Location of Books and Records

The Company's books and records are kept at its main administrative office at 100 Indiana Avenue, N.W., Washington, DC 20001. The location of the Company's books and records was determined to be in compliance with Tenn. Code Ann. § 56-2-104.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the *NAIC Financial Condition Examiners Handbook*. During the course of examination, assets were verified and valued, and liabilities were determined and estimated as of December 31, 2004. The financial condition of the Company and its amount of solvency were thereby established. Test checks were made of income and disbursement items for selected periods, and a general review was made of the Company's operations, practices and compliance with applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on capital and surplus.

An examination was also made into the following matters:

Company History
Charter and Bylaws
Management and Control
Corporate Records
Fidelity Bonds and Other Insurance
Territory
Plan of Operation
Market Conduct Activities
Reinsurance
Retirement Plan and Other Employee Benefits
Loss Experience
Accounts and Records
Statutory Deposits
Agreements with Parent, Subsidiaries and Affiliates
Litigation
Financial Statement

Previous Examination Recommendations

The examination included a review to determine the current status of the prior examination report comments and recommendations dated April 12, 2001 which covered the period from January 1, 1995 to December 1999.

Recommendations:

"Corporate Records: During the review of the minutes of the meetings of the Board of Trustees it was noted that the minutes did not reflect a review and approval of the Company's previous report on examination. It is recommended that all future Tennessee Department of Commerce and Insurance reports on examination be reviewed and approved by the Company's Board of Trustees and that the minutes of the meetings also reflect this review and approval."

MBA did review and approve the examination report and it was reflected in the minutes of the meetings.

"Complaints: For the period under review, the Company did not maintain a formal complaint log in which all written complaints were recorded. A file is maintained for all complaints received from insurance departments. It is recommended that the Company take necessary steps to establish a register or log of written complaints filed by certificate holders. This log or register should contain sufficient information to enable the examiners to review the documentation at future examinations by the Tennessee Department of Commerce and Insurance."

MBA initiated a complaint log in 2001 and has maintained this complaint log through the current period; however, the MBA only records those complaints that are directed towards management.

"Continuity of Operations: During the examination, we noted that the Company does not have a disaster recovery plan, only an information technology data recovery plan. This was discussed with an officer of the Company who stated that there are some steps which have been taken to enable the Company to continue operations without lengthy down time in the event of a disaster. These steps consist 1) of the purchase of a fireproof safe in which are kept data and computer tapes, and 2) each evening a copy of computer tapes are stored at an offsite location. In addition, an officer stated that in the event of the total loss of the building, the Company could set up operations in the NALC Health Benefit building in Ashburn, Virginia. It appears that the Company has a disaster recovery plan however it is not a written plan, nor has there ever been a test of this plan. It is therefore recommended that the Company take immediate steps to establish a formal written disaster recovery plan and that this plan be tested periodically."

As of 2001 MBA has established a formal written disaster recovery plan and the plan is tested periodically.

"Custodian Agreement: During the review of the Company's invested assets, it was noted that the custodian agreement in effect as of the date of this examination was not in compliance with the requirements of Tennessee statutes and regulations governing the placement of insurance company securities. Tenn. Comp. R. & Regs. ch. 0780-1-46.04 requires the following:

(1) (a) Insurance companies shall have executed the appropriate Custodian Affidavits Forms A, B or C for its securities held under a custodial agreement. Such executed forms shall be available for purposes of insurance company examinations under T.C.A. §§ 56-1-408 through 56-1-413. Failure to provide the appropriate custodian affidavit will result in the Insurance Department treating as non-admitted assets those of an insurance company's securities held by the custodian; further, for the purposes of such examinations, the underlying agreement between an insurance company and a custodian shall be available. An insurance company shall require in addition to any other provision that such custodial agreement provide a standard of responsibility on the part of the custodian which shall not be less than the responsibility of a bailee for hire or fiduciary under statutory or case law of Tennessee; that securities held by the custodian are subject to instructions of the insurance company; and that

securities may be withdrawn immediately upon demand of the insurance company.

The Company's custodian agreement did not contain specific language requiring that the custodian provide a standard of responsibility which shall not be less than the responsibility of a bailee for hire or a fiduciary under statutory or case law of Tennessee; that securities held by the custodian are subject to instructions of the insurance company; and that securities may be withdrawn immediately upon demand of the insurance company. It is recommended that the Company take immediate steps to amend its custody agreement so that it contains this specific language of Tenn. Comp. R. & Regs. ch.0780-1-46.04."

MBA provided a custodian agreement that meets the requirements of Tenn. Code Ann. and Tenn. Comp. R. & Regs. governing the placement of MBA's securities. The custodian agreement now contains the specific language in Tenn. Comp. R. & Regs. ch. 0780-1-46.04.

"Reserves: The reserves and methodologies utilized by the Company to compute the reserves, and the adequacy of the reserves as of December 31, 1999 were reviewed by the examination consulting actuary. Other than the liability for accident and health certificates and contract claims, the actuary determined that the reserves appeared to be sufficient. However, in the individual disability income business, it was noted that depending on the year of issue, one-year or two-year full preliminary term additional contract reserves are held, but the footnote to Exhibit 9 did not reflect this. It is, therefore, recommended that the footnote to Exhibit 9 be modified to reflect the reserve assumption change made by the Company in conjunction with the individual disability income rate adjustment effected August 1, 1999."

Based on the work and report of the contracted actuaries, MBA has updated their footnote.

"Certificate and contract claims: Accident and Health: This liability, as established by this examination, is $698,000 greater than the amount reported by the Company in its December 31, 1999 annual statement. The examination consulting actuary determined that the reserve liability in Exhibit 9 and Exhibit 11 for due and unpaid claims and for IBNR claims as of December 31, 1999 were deficient by $698,000 relative to claims paid in the year 2000.

The examination actuary also reviewed the Company's methodology used to compute the reserves for due and unpaid individual disability income claims. The liability is established on a case by case basis, using the estimated remaining benefits payable. In practice, the Company makes additional payments whenever further claim information is submitted. This appears to be the primary source of the reserve deficiency for the claim liabilities. It is therefore recommended that the Company perform experience studies to determine the additional disability payments which historically result from subsequent claim filings, and that the Company establish future liabilities for due and unpaid individual disability income claims reflecting these additional claim costs. It is also recommended that the Company test the total aggregate claim costs for consistency with the claim costs assumed in the determination of the individual disability income additional contract reserves."

The contracted actuaries noted that MBA's work papers indicated that (a) MBA did the requested experience studies and (b) they revised their incurred but not reported (IBNR) calculation to use the results of those experience studies. The IBNR liabilities for disability claims does provide for additional claims based on and consistent with the experience studies. The IBNR is included in the total aggregate health claim costs.

COMPANY HISTORY

MBA was organized in the State of Tennessee in 1892 under powers conferred by a general welfare charter issued to the National Association of Letter Carriers of the United States of America (NALC) also known as the Union. This charter provided for the establishment of and operation of an insurance fraternal benefit corporation, the United States Letter Carriers Mutual Benefit Association (MBA).

The MBA is a fraternal association authorized to transact the business of fraternal life, health and accident insurance under the laws of the State of Tennessee. The MBA exists to provide life insurance, annuity, and health coverage to members of the NALC and their families. The NALC is a national union representing letter carriers and other non-supervisory personnel of the United States Postal Service.

On December 4, 1905, the charter was amended to permit the writing of sick benefit coverage, known as the United States Letter Carriers National Sick Benefit Association (NSBA). Effective July 1, 1955, MBA's authority was expanded to permit the writing of accident and health coverage, including hospitalization. At the same time, the outstanding certificates of the NSBA and its future operations were assumed by MBA along with the NALC hospitalization plan (HBP). The NALC agreed to protect MBA against any future losses it sustained by reason of this assumption. The operations of the NSBA and HBP were continued on an autonomous basis as a department of MBA until September 9, 1960, at which time the President of NALC transferred the direction of the NSBA to the Trustees of MBA. HBP became a distinct and separate autonomous operation governed exclusively by federal law and outside the control or jurisdiction of MBA.

Effective March 31, 1983, an amended charter of MBA specified that the purposes of the fraternal are limited to insurance business exclusive of all group accident and health insurance provided by HBP. After March 31, 1983, all claims and similar HBP liabilities became the responsibility of NALC.

Dividends or Experience Refunds:

The following schedule outlines the refunds paid to members, for the years shown:

	2004	2003	2002	2001	2000
Life	$523,293	$522,898	$539,507	$530,985	$541,056
Accident & Health	7,082	7,405	7,861	8,515	8,728
Totals	$530,375	$530,303	$547,368	$539,500	$549,784

Growth of Company

Comparative financial data, as reported in the Company's Annual Statements, was as follows:

	2004	2003	2002	2001	2000
Net Admitted Assets	$156,807,484	$147,056,256	$136,146,022	$126,040,951	$117,399,665
Liabilities	133,299,638	124,342,441	113,959,662	104,146,297	96,042,010
Surplus	23,507,846	22,713,815	22,186,360	21,894,654	21,357,655
Net Income	923,743	633,262	240,975	302,177	660,605
Premium Written:					
Life	3,770,170	3,768,210	3,863,449	3,916,851	4,031,772
Annuities	7,843,116	7,947,792	7,992,926	4,789,724	3,907,154
A&H	5,230,639	4,935,208	5,237,385	5,490,958	5,973,597

CHARTER AND BYLAWS

Charter:

The object of the MBA is to unite fraternally all letter carriers and non-supervisory employees of the Postal Career Service who are of sound bodily health and good moral character, and who are members in good standing in the NALC. The MBA was to establish a fund from which to pay all normal life insurance, disability, and annuity benefits in accordance with the General Laws relating to benefit certificates and to pay such costs of administering the MBA as may be properly chargeable thereto.

Bylaws

An application for admission to membership in the MBA must be a letter carrier or other non-supervisory employee of the Postal Career Service who is a member in good standing of the NALC, or the spouse, child, grandchild, or great grandchild of a member of the NALC. Employees of the NALC and its subsidiaries, their spouse and children are also eligible applicants for membership in the MBA.

Each applicant for membership shall make application on the form provided for that purpose and, subject to the non-medical limits in effect, be examined by some competent practicing physician.

The MBA's general laws were amended in 2000 and 2004. Both amendments changed the names of the Board of Trustees.

MANAGEMENT AND CONTROL

Management:

The charter and the Constitution and General Laws of MBA state that the business and affairs shall be managed by a three member Board of Trustees, all of whom must be elected from and by the members of the NALC.

In addition to the Board of Trustees, the NALC elects a director of life insurance who has direct charge of the administration of MBA. The President of NALC has general supervision of MBA. Trustees and officers serve for a term of four (4) years.

Board of Trustees

The following persons were serving as MBA's trustees as of December 31, 2004:

Lawrence D. Brown, Jr.	Chairman
Daniel T. Rupp	
Randall L. Keller	

Officers

The following persons were serving as officers as of December 31, 2004:

William H. Young	President of NALC
Brian Hellman	Interim Director of Life Insurance
*Myra Warren	Director of Life Insurance
	*Effective January 3, 2005, she replaced Brian Hellman as Director

Board of Investments

In accordance with MBA's Constitution and General Laws, as of December 31, 2004, the following were serving on the Board of Investments:

William Young	Chairman.
Brian Hellman	Secretary
Lawrence D. Brown, Jr.	
Randall L. Keller	
Daniel T. Rupp	

In accordance with MBA's Constitution and General Laws, Griffith, Ballard and Company has been appointed as MBA's consulting actuary.

Management Agreements

In 1995, MBA entered into a formal service agreement with NALC whereby MBA is leasing office space from NALC and NALC is to provide services as required or needed by MBA. These services include, but are not limited to the following:

a) Access to NALC computer database
b) Company employee's participation in the NALC's Annuity Trust Fund, a defined benefit plan, and the NALC HBP

Pecuniary Interest

A check for compliance with Tenn. Code Ann. § 56-3-103 found that no director or officer of MBA had a pecuniary interest in the investment or disposition of Company funds.

Conflict of Interest Policy

Trustees, officers and responsible employees of MBA annually completed conflict of interest statements. The statements were reviewed for the years 2000 through 2004 and found to be in compliance with Tenn. Code Ann. § 56-3-103.

Control:

MBA is the voluntary life insurance organization of NALC. NALC is the Union, which is the exclusive bargaining representative of city letter carriers. As of December

2004, members of MBA totaled two hundred and ninety-eight thousand eight hundred and eighty-one (298,881).

CORPORATE RECORDS

Minutes of the meetings of the Board of Trustees for the period under examination were reviewed. Based on the review, it appeared that the minutes documented MBA's significant transactions and that the Board of Trustees approved these transactions. It was noted that the minutes of MBA's Board of Trustees' meetings reflected a review and approval of the Report of Examination as of December 31, 1994

HOLDING COMPANY STRUCTURE

MBA is not part of a holding company and is not required to file such reports.

FIDELITY BOND AND OTHER INSURANCE

MBA meets the NAIC suggested minimum amount of insurance for an insurer of its size and maintained adequate insurance coverage against prospective occurrences of hazards during the examination period. MBA's insurance program consisted of a fidelity bond, commercial property coverages, a policy of workers' compensation, employer's liability coverage and a commercial umbrella liability policy. All insurance coverages are with companies that are licensed in Tennessee.

TERRITORY

As of December 31, 2004, and as of the date of this examination report, MBA operates in most jurisdictions and is authorized to conduct business in the State of Tennessee and the States of Illinois, Kansas, Michigan, Minnesota, Missouri, Montana, New Mexico, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Virginia and Wisconsin. MBA is specifically exempted from formal licensing by all other jurisdictions except in Florida, Mississippi, Ohio and Oregon. The Certificates of Authority for each jurisdiction were reviewed.

SCHEDULE T –EXHIBIT OF PREMIUMS WRITTEN

	Life Insurance Premiums	Annuity Considerations	Accident and Health Insurance Premiums
Alabama	$ 36,616	$ 18,907	$ 54,979
Alaska	7,491	86,380	4,719
Arizona	33,749	167,752	80,275
Arkansas	11,549	6,824	13,545
California	269,130	678,171	754,312
Colorado	29,338	82,259	35,362
Connecticut	37,066	138,702	84,565
Delaware	12,162	19,616	20,379
District of Columbia	649,299	16,748	13,808
Florida	226,298	528,254	329,124
Georgia	62,160	58,436	101,352
Hawaii	12,542	107,252	9,820
Idaho	7,362	18,725	2,512
Illinois	163,571	714,675	254,908
Indiana	72,997	126,527	85,140
Iowa	4,571	33,208	16,430
Kansas	22,177	54,378	25,688
Kentucky	16,721	30,185	32,258
Louisiana	54,800	39,320	74,137
Maine	7,586	17,429	19,878
Maryland	83,782	222,113	143,467
Massachusetts	86,180	402,325	192,475
Michigan	74,736	253,406	363,440
Minnesota	23,742	191,965	43,448
Mississippi	23,685	7,868	26,316
Missouri	56,371	161,970	50,598
Montana	5,827	97,365	6,839
Nebraska	11,467	26,985	12,525
Nevada	21,387	57,091	33,353
New Hampshire	9,508	22,159	50,175
New Jersey	159,497	405,532	327,694
New Mexico	13,513	20,265	25,869
New York	271,519	770,632	581,685
North Carolina	50,695	71,470	81,896
North Dakota	5,124	6,907	3,812
Ohio	162,535	248,607	160,011
Oklahoma	18,888	58,977	17,976
Oregon	13,908	62,570	23,682
Pennsylvania	185,560	571,686	346,382
Rhode Island	10,977	63,060	37,892
South Carolina	29,287	50,963	24,132

	Life Insurance Premiums	Annuity Considerations	Accident and Health Insurance Premiums
South Dakota	$ 2,928	$ 22,507	$ 3,038
Tennessee	35,272	77,195	62,577
Texas	208,423	576,686	385,161
Utah	6,079	15,254	11,178
Vermont	1,054	7,414	2,696
Virginia	78,647	167,687	62,034
Washington	33,552	83,366	39,967
West Virginia	13,309	35,173	20,350
Wisconsin	43,298	112,842	65,174
Wyoming	4,370	9,733	4,670
Guam	873	2,700	
Puerto Rico	3,955	12,121	5,402
US Virgin Islands	384	2,384	1,995
Canada	65		
Aggregate Other Alien	223	390	285
Dividends or refunds Applied ...	202,780		
Total Direct Business	$3,690,585	$7,843,116	$5,231,385

PLAN OF OPERATION

The MBA exists to provide life insurance, annuity and accident and health coverages to members of the NALC and their immediate dependents. The NALC is a national Union representing letter carriers and other non-supervisory personnel of the United States Postal Service.

The MBA has no insurance agents. Insurance solicitation is accomplished through NALC's magazine "The Postal Record". This direct response marketing is supplemented with promotional material provided by the MBA home office to NALC branches and by the MBA representatives who serve each branch.

The marketing strategy for 2004 called for a continuation of solicitation by direct response marketing. Solicitation campaigns for 2004 included:

- Maturity Income (flexible premium deferred annuity plan)
- Hospital Plus (hospital indemnity plan)

Direct response marketing has been an effective method of acquiring new business. Response by the membership has been good, with closing rates resulting on low cost ratios. This, coupled with the stable per policy costs for maintaining and servicing in force policies, has contributed to the favorable operating results experienced by the MBA over the past years.

MARKET CONDUCT ACTIVITIES

In accordance with the policy of the Tennessee Department of Commerce and Insurance, a market conduct review was made of MBA as of December 31, 2004 in conjunction with this examination. The following items were addressed:

Policy Forms, Rating and Underwriting:

MBA offers five (5) life insurance plans: 1) single premium whole life, 2) limited-payment whole life, 3) interest sensitive whole life, 4) five (5) year renewable convertible term life and 5) universal life. Disability waiver of premium is provided as a supplemental benefit on the whole life and five (5) year renewable convertible term life policies. In addition, MBA also offers one (1) annuity plan, a flexible premium deferred annuity policy.

MBA currently offers one (1) type of disability coverage, a hospital confinement policy. Benefits provided under this plan range from thirty dollars ($30) to seventy-five dollars ($75) per day of hospital confinement. MBA has decided to increase the seventy-five dollars ($75) benefit to one hundred dollars ($100). Every state has approved the increase except for Montana. MBA has decided to move ahead with the increase and let the lawyers handle the filing and approval with Montana.

As no member is refused coverage upon his/her application, there are no written underwriting guidelines. In addition, no medical examinations are required for coverage. MBA relies on a statement of good health contained in the application form.

Life insurance coverage offered by MBA is limited to a minimum of one thousand dollars ($1,000) and a maximum of fifty thousand dollars ($50,000).

Under Tenn. Code Ann., life rates are not required to be filed with the Tennessee Department of Commerce and Insurance.

Advertising:

Insurance solicitation is accomplished through a monthly NALC magazine, "The Postal Record". This direct response marketing is supplemented with promotional material provided by the MBA's home office to the NALC branches and by the MBA representatives who serve each branch. MBA maintains advertising files in accordance with the requirements of the Tenn. Comp. R. & Regs. ch. 0780-1-8-.17 and 0780-1-33-.10. MBA's advertising does not appear to misrepresent or mislead the policyholders in the products offered by MBA.

Claims Review:

1. Disability Income Claims:

The disability income coverage provides a monthly benefit when the insured is disabled from working and is under the care of the physician for the disability. The benefits are payable in accordance with the type of insurance purchased. When the insured is disabled, a claim form must be completed by the insured, certified by the attending physician and the insured's employer. Benefits are then paid in accordance with the terms of the type of coverage originally purchased.

2. Hospitalization Claims:

The hospital indemnity coverage provides a benefit for each day that the insured is confined, as an inpatient, to a hospital. A hospital confinement claim form, submitted by the insured is the first notice of a claim. The claim must be accompanied by a copy of the itemized hospital bill. The benefits are then paid in accordance with terms and type of coverage originally purchased.

3. Death Claims:

MBA receives notice of the death of an insured by an informant which may include a letter from a relative, a telephone call, the Minnesota Payroll Data Center report or returned mail. A work sheet is prepared by MBA and the beneficiary is determined. A letter and a "Statement of Beneficiary form" are sent to the beneficiary for completion. The beneficiary must complete and return the completed form along with a certified copy of the death certificate.

A sample of open and closed claim files reviewed during the examination indicated that claims were being paid in accordance with policy provisions and settlements were made promptly upon receipt of proper evidence of MBA's liability.

Policyholder Complaints:

During the period under review, MBA developed and maintained a formal complaint log. A review of the files recorded in the complaint log for the period under examination was made and indicated that inquiries were answered promptly and fairly.

Inquiries made to the various policyholders' service offices indicated no regulatory concerns with MBA during the period under examination. No unusual practices or items warranting criticism of MBA were noted.

Privacy

In June of every year, MBA provides a privacy policy to their member which includes the following information:

1. Notice to members about its privacy policies and practices;
2. Describes the conditions under which MBA may disclose nonpublic personal information about members to affiliates and nonaffiliated third parties;

The notice is reasonably understandable and designed to call attention to the nature and significance of the information in the notice; therefore, it appears that MBA is in compliance with Tenn. Comp. R. & Regs. ch. 0780-1-72.

Anti-Fraud Plans

MBA has prepared, implemented and maintained an insurance anti-fraud plan. The plan outlines specific procedures appropriate to the types of insurance MBA writes in the State of Tennessee. The plan also outlines specific procedures to prevent, detect and investigate all forms of insurance fraud; however, it does not include fraud involving the insurer's employees. All applications for insurance except for the Hospital Plus and Maturity Income contains a fraud warning statement permanently affixed to the application. This fraud warning statement is not included in MBA's Beneficiary Claimant

Form and the Hospital Insurance Claim Form. See the "Comments and Recommendations" section of this report under the caption "Anti-Fraud Plans", for further comments regarding this item. Based on the above information, it appears that MBA is not in full compliance with Tenn. Code Ann. § 56-53-111 which states that by January 1, 2002, all applications for insurance, and all claim forms regardless of the form of transmission provided and required by an insurer or required by law as a condition of payment of a claim, shall contain a fraud warning statement permanently affixed to the application or claim form.

REINSURANCE

For the entire period under review and as of the date of this examination, MBA has not assumed or ceded any insurance.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

Employees and officers of MBA participate in a non-contributory pension program sponsored by the NALC. Rights vest in the program after five (5) years of service and funding by MBA is at the rate of sixteen percent (16%) of the employees' gross salary. The program also includes disablement and survivor benefits.

MBA also provides its employees with a non-contributory term life insurance plan and a health benefit plan. Health insurance and life insurance is provided by the participation in the plans of the NALC. Coverage for life insurance is in the amount of twenty-five thousand dollars ($25,000) for non-NALC/supervisory personnel and twenty thousand dollars ($20,000) for NALC personnel. Health insurance benefits are provided by the NALC HBP.

LOSS EXPERIENCE

	Life	Individual Annuities	Accident and Health
2004:			
Premiums Earned	$3,770,170	$7,843,116	$5,230,639
Losses/Benefits Paid	1,353,541	4,240,326	4,552,511
Ratio	35.90%	54.06%	87.04%

	Life	Individual Annuities	Accident and Health
2003:			
Premiums Earned	3,768,210	7,947,792	4,935,208
Losses/Benefits Paid	1,401,697	4,012,868	4,949,793
Ratio	37.20%	50.49%	100%
2002:			
Premiums Earned	$3,863,449	$7,992,926	$5,237,385
Losses/Benefits Paid	1,349,812	3,696,989	5,391,298
Ratio	34.94%	46.25%	103%
2001:			
Premiums Earned	3,916,851	4,789,724	5,490,958
Losses/Benefits Paid	1,010,075	3,277,747	5,150,058
Ratio	25.79%	68.43%	93.79%
2000:			
Premiums Earned	4,031,772	3,907,154	5,973,597
Losses/Benefits Paid	1,450,129	3,868,343	4,882,762
Ratio	35.97%	99.00%	81.74%

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings and reconciliation of subsidiary ledgers to control accounts where necessary. General ledger trial balances were reconciled with copies of annual statements for the years 2000, 2001, 2002, 2003 and 2004.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of MBA at the date of examination.

MBA's Risk Based Capital Report was reviewed and found to be in compliance with requirements.

MBA retains the independent certified accounting services of Bond Beebe for financial statement reporting purposes. This firm has been performing such services for seven (7) years. The lead auditor on the examination is replaced after five (5) years; therefore, there appears to be no violation as respect to Tenn. Comp. R. & Regs. ch 0780-1-65.07(3).

STATUTORY DEPOSITS

In compliance with statutory requirements, MBA maintained the following deposits at December 31, 2004. These deposits were verified by direct correspondence with each state.

Where Deposited and Description	Par Value	Statement Value	Market Value
General Deposit			
Tennessee			
FHLMC, 6.625%, Due 9/15/99	$400,000	$437,285	$416,000
Special Deposit			
South Carolina			
US Treasury Note, 5%, Due 2/15/2011	$135,000	$134,198	$143,100
Total	$535,000	$571,483	$559,100

LITIGATION

As of December 31, 2004, MBA had no pending litigation, other than that arising out of the normal course of business, which would adversely affect the financial condition of MBA.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2004, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	Ledger	Not Admitted	Net Admitted
Bonds	$147,869,391	$315,490	$147,553,901
Cash and short-term investments	1,697,607		1,697,607
Contract loans	4,808,771		4,808,771
Aggregate write-is for invested assets	396,867		0
Investment income due and accrued	1,986,425		1,986,425
Uncollected premiums and agents' balances in course of collection	19,321		416,188
Electronic data processing equipment and software	32,382	3,280	29,102
Other assets nonadmitted	19,882	19,882	0
Total Assets	$156,830,646	$338,652	$156,491,994

LIABILITIES, SURPLUS, AND OTHER FUNDS

Aggregate reserve for life certificates and contracts	$105,768,569
Aggregate reserve for accident and health contracts	18,583,209
Liability for deposit-type contracts	1,908,614
Contract Claims:	
Life	399,210
Accident and health	477,540
Provisions for refunds apportioned for payment to December 31, 2005	544,333
Premiums and annuity considerations received in advance	196,729
Interest maintenance reserve	3,169,129
General expenses due or accrued	317,685
Taxes, licenses and fees due or accrued	3,290
Amounts withheld or retained by Society as agent or trustee	(1,062)
Remittances and items not allocated	89,871
Asset valuation reserve	309,963
Aggregate write-ins for liabilities	1,532,558
Total Liabilities	$133,299,638
Aggregate write-ins for other than liabilities and surplus funds	$350,000
Unassigned funds	22,842,356
Total Surplus	$23,192,356
Total Liabilities, Surplus and Other Funds	$156,491,994

SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and A&H contracts	$16,843,925
Considerations for supplementary contracts with life contingencies	735,079
Net investment income	7,641,591
Amortization of Interest Maintenance Reserve	409,912
Aggregate write-ins for miscellaneous income	4
Total	$25,630,511
Death benefits	$1,353,541
Annuity and old age benefits	4,240,326
Disability, accident and health benefits, including premiums waived	4,577,205
Surrender benefits and withdrawals for life contracts	1,347,488
Interest and adjustments on contract or deposit-type contracts funds	132,845
Payments on supplementary contracts life contingencies	364,859
Increase in aggregate reserve for life and A&H contracts	8,917,938
Total	$20,934,202
General insurance expenses and fraternal expenses	$2,835,691
Insurance taxes, licenses and fees	106,810
Increase in loading on deferred and uncollected premiums	(341)
Aggregate write-ins for deductions	306,986
Total	$24,183,348
Net gain from operations before refunds to members	$1,447,163
Refunds to members	523,420
Net gain from operations after refunds to members and before realized capital gains (losses)	923,743
Net Income	$923,743

RECONCILIATION OF CAPITAL AND SURPLUS FOR THE PERIOD UNDER EXAMINATION

Surplus as regards policyholders December 31	**2000**	**2001**	**2002**	**2003**	**2004**
Previous Year	$20,333,963	$21,357,655	$21,894,654	$22,186,360	$22,713,815
Net Income (loss)	660,605	302,177	240,975	633,262	923,743
Change in nonadmitted assets	202,432	234,822	193,155	208,121	(303,737)
Change in asset valuation reserve	160,655		(66,732)	(53,266)	(39,965)
Aggregate write-ins. for gains and losses in surplus			(75,692)	(260,662)	(101,500)
Surplus as regards to policyholders December 31 Current Year	**$21,357,655**	**$21,894,654**	**$22,186,360**	**$22,713,815**	**$23,192,356**

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Bonds	$147,553,901

The above amount is three hundred and fifteen thousand four hundred and ninety thousand dollars ($315,490) less than the amount reported in MBA's 2004 Annual Statement.

Starting in 2000, MBA incorrectly recorded the par values for several of its bonds in Schedule D. For each year thereafter, MBA continued to incorrectly record its par values. Because the par values were incorrectly recorded at bond purchase, several columns in Schedule D are also reported incorrectly.

The $315,490 reduction for this line item is a result of MBA's bond values in Schedule D being different from the balance in the bank confirmations. MBA was made aware of the incorrect par values and has stated that they will make the necessary corrections to Schedule D in the June quarterly statement.

SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION" AS THEY AFFECT SURPLUS

The following depicts the change in surplus as outlined in the previous section of the report.

ITEM	SURPLUS INCREASE	SURPLUS DECREASE
Bonds		$315,490

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

Comments:

Actuary Findings

The actuaries found that MBA's reserves are materially correct. Their review of the reserves showed that the reserves being held in Exhibit 5 are in excess of the minimum reserves required by six hundred and twenty-one thousand dollars ($621,000).

The actuaries recommend that MBA modify its alternative minimum reserve calculation procedure. This was done toward the end of the examination.

The actuaries also recommend that MBA fix the typographical error in the footnote to Exhibit 6 for the Hospital Policies to omit any mention of the method used to calculate those reserves. Those reserves are being calculated by a one (1) year full preliminary term method, without using the conversion factors for the claim costs to convert from a ninety (90) day benefit period to a three hundred and sixty-five (365) day benefit period. However, the reserves calculated in this way are in excess of the minimum requirements of a two (2) year full preliminary term using the conversion factors. The estimates of the excess reserves range from one hundred and ninety thousand dollars ($190,000) to three hundred and sixty thousand dollars ($360,000). Future examinations should continue to estimate the excess, since the sample indicated results varying by policy.

Recommendations:

Anti-Fraud Plans – page 18

It is recommended that all applications for insurance, and all claim forms regardless of the form of transmission provided and required by an insurer or required by law as a condition of payment of a claim, contain a statement, permanently affixed to the application or claim form, that clearly states in substance the following, or words to that effect: "It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding MBA. Penalties include imprisonment, fines and denial of insurance benefits." as set forth by Tenn. Code Ann. § 56-53-111(b).

Bonds – page 25

Statements of Statutory Accounting Principles (SSAP) No. 3, Accounting Changes and Corrections of Errors, establishes statutory accounting principles for changes in accounting, which include changes in accounting principles, estimates, and reporting entities, and for corrections of errors in previously issued financial statements. It also states that corrections of errors in previously issued financial statements shall be reported as adjustments to unassigned funds (surplus) in the period an error is detected. Therefore, it is recommended that MBA redo Schedule D by re-entering the correct par values for their bond investments and submit the corrected Schedule D with the June quarterly statement.

CONCLUSION

The customary examination practices and procedures, as promulgated by the NAIC, have been followed in connection with the verification and valuation of assets and the determination of liabilities of United States Letter Carriers Mutual Benefit Association, Washington, DC.

In such manner, it was determined that, as of December 31, 2004, MBA had admitted assets of one hundred fifty-six million four hundred and ninety-one thousand nine hundred and ninety-four dollars ($156,491,994) and liabilities, exclusive of capital, of one hundred thirty-three million two hundred and ninety-nine thousand six hundred and thirty-eight dollars ($133,299,638). Therefore, there existed for the additional protection of policyholders, an amount of twenty-three million one hundred and ninety-two thousand three hundred and fifty-six dollars ($23,192,356).

In addition to the undersigned, Rebecca Walker of the Tennessee Department of Commerce and Insurance, Al Burns, FSA, MAAA, Sarah Christiansen, FSA, MAAA, PhD and Carl Harris, FSA, MAAA, FCA all of Insurance Strategies Consulting, LLC participated in the work of this examination.

Respectfully submitted,

Stephanie D. Higgins

Stephanie D. Higgins, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of United States Letter Carriers Mutual Benefit Association dated July 28, 2005 and made as of December 31, 2004, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

Stephanie D. Higgins

Stephanie D. Higgins, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

Subscribed and sworn to before me

this 28th day of

July, 2005

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 03/25/2006